Finally, the declining price of interexchange service since divestiture is perhaps the most stark evidence of competition. Since the MFJ, long distance prices have plummeted 60% in real terms, and 37% net of access. Id. ¶ 31. The decline in prices has not been limited to the highest volume callers. To the contrary, as the FCC has found, the "average best price" for all categories of residential customers divided by calling volume fell from 1991 to 1995. Non-Dominance Order, 11 FCC Rcd. at 3363 (Appendix B, Table 1).[58]

Thus, after an objective examination of the relevant determinants of market power, there can be no tenable claim that the long distance market is non-competitive. In contending otherwise, BellSouth and its experts rely principally on assertions that AT&T's rates have risen notwithstanding significant reductions in access charges. Br. 89-90; Hausman Aff. ¶¶ 28-32; Schmalensee Aff. ¶ 9. Those claims are false. They directly conflict with the Commission's findings, and they ignore data that conclusively show that rates paid by consumers have declined more than access charge reductions precisely because of the intense competition in that market. Hubbard/Lehr. Aff. ¶¶ 31-33; 129-32.

Discounting the benefit to low-volume customers occasioned by recent reductions in IXCs' basic rates, BellSouth also relies on the fact that basic schedule rates for low-volume customers have increased in recent years. But under the many flat rate plans offered by major IXCs, even low-volume customers need not pay basic rates. BellSouth's contention that many consumers cannot benefit from these plans is false. Br. 90. For example, customers who make most of their calls during peak times can benefit from AT&T's flat $0.15 rate, while customers who make most of their calls on evenings and weekends can benefit from Sprint's $0.10 off-peak

[58] The FCC's data showed a slight increase in nominal terms for the customers in the lowest calling volume category, but even that segment experienced a decline in real terms.

rate. These flat rate plans also plainly refute BellSouth's specious contention that even "mid-volume callers are denied discounts." Br. 91.

Moreover, increases in basic rates have occurred for competitively benign reasons. Because regulation has kept rates below cost for low-volume customers, AT&T has raised those rates when permitted to do so, and its competitors have followed suit, presumably to avoid attracting low-volume, high-cost customers themselves.[59] The measure of competition is not at the low end of the market, where regulation has artificially depressed prices, but at the middle and high-volume end, where rates can reflect costs and carriers compete aggressively on price and quality to win customers. BellSouth never even attempts to explain why, if long distance carriers can successfully collude, they have offered discounts to high volume customers who provide the most revenue -- or why, if these carriers can collude on price, they do not collude on non-price matters and instead choose to "waste" enormous sums on advertising and other marketing expenditures.

Nor does BellSouth adequately explain (Br. 96) why its "marketing strength will be most pronounced" among low-volume customers, and it offers no plausible reason why it would choose to target the least profitable section of the long distance market.[60] In the absence of such evidence, there is no reason to believe that BellSouth's entry will bring any of the benefits of competition to low-volume long distance customers. See Ameritech Michigan Order ¶ 16 ("[I]n determining the extent to which BOC entry into the long distance market would further

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[59] See B. Douglas Bernheim and Robert D. Willig, The Scope of Competition in Telecommunications (AEI 1997) (unpublished manuscript), Chapter 2, at 37-43.

[60] It is far more likely that BellSouth will follow GTE's reported "targeted approach of wooing high volume customers." Communications Daily, 12/3/96, at 1. The article goes on to quote GTE's "President - long distance services" Rob McCoy as explaining, "We're not going after the mass market. That would be inefficient." Id.

competition, we would find it more persuasive if parties presented specific information as to how such entry will bring the benefits of competition, including lower prices, to all segments of the long distance market.").

Also unfounded is BellSouth's argument that SNET's entry into the long distance market illustrates the positive competitive impact of BOC entry into interchange markets. To the contrary, SNET's long distance prices are no lower than major IXCs' nationwide rates. SNET's interexchange rates vary from 23 cents during the day to 13 cents at night (or a 15 cent flat rate), and only provide small discounts for high volumes. In comparison, AT&T One Rate and Sprint Sense Day Plan each offer flat rates of 15 cents per minute to all customers, at all times, regardless of calling volumes. In addition, for a $4.95 monthly fee, AT&T offers a 10 cent flat rate at all times. Sprint also offers a flat rate of 10 cents per minute for domestic calls between 7 P.M. and 7 A.M., and 25 cents per minute for other domestic calls, and it has recently introduced a plan that offers $50.00 per month of free calls on Monday evenings. MCI offers a flat rate of 12 cents at all times to customers who make over $15.00 a month in calls, and it offers all residential customer a 5 cent per minute rate on Sundays. Hubbard/Lehr Aff. ¶ 119. Plainly, even taking into account SNET's one-second billing increments, these statistics reveal no obvious consumer benefits flowing from SNET's entry into the interexchange market. See also Schwartz Supp. Aff. ¶¶ 81-83.

Nor is the fact that SNET has captured significant market share attributable to SNET's greater efficiency. SNET's success is due in large part to its bundling of long distance offerings with its monopoly provision of local services and its aggressive promotion of PIC freezes for its own long distance customers. Hubbard/Lehr Aff. ¶ 120. Moreover, SNET has recently announced that it will undertake a corporate reorganization expressly designed to rid itself of the

Act's requirement that it resell local services at a wholesale discount.[61] Thus, far from proving the benefits of permitting a monopoly ILEC into an in-region, interLATA market, SNET's behavior in Connecticut illustrates what an ILEC unconstrained by the section 271 incentive will do to avoid opening its local market to competition.

BellSouth's reliance on the Bell Atlantic/NYNEX Eastern corridor interLATA rates is also misplaced. Although a customer can now presubscribe to Bell Atlantic/NYNEX for Eastern corridor calls, the customer must then dial a 10-XXX carrier access code for all interLATA calls that are not Eastern corridor. As a result, very few customers have presubscribed to Bell Atlantic/NYNEX in the corridor, and almost all Eastern corridor BOC calls require a carrier access code. It is these obvious competitive handicaps, and not greater efficiencies, that have forced Bell Atlantic/NYNEX to offer lower prices. Hubbard/Lehr Aff. ¶ 120 n.102.

BellSouth's claim that it will spur competition by underpricing long-distance carriers is thus implausible in the extreme, for prices are already at competitive levels, and BellSouth can achieve no cost advantages except through discrimination, cross-subsidies, and price squeezes. For this reason, BellSouth's reliance upon the WEFA Group's estimate of the impact of BellSouth's in-region interLATA entry on the Louisiana economy is wholly specious. WEFA's conclusions are based on assumptions -- such as that BellSouth's entry will reduce long distance service prices by 25% -- that are empirically unjustified and patently unreasonable. Id. ¶¶ 135-37. Moreover, the WEFA study's welfare benefit analysis is also rendered meaningless by its failure even to address the harm to local and long distance consumers -- whose savings from the advent of meaningful local competition would dwarf any savings that might flow from adding

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[61] See AT&T v. Commissioners of the Connecticut Dep't of Pub. Util. Control, Civ. Action No. 397CV01601, Complaint for Injunctive Relief and Declaratory Judgment, ¶ 9 (filed Aug. 8, 1997).

yet another long distance competitor (see id. ¶ 122) -- that would be caused by permitting BellSouth to enter the in-region interLATA market before entry barriers to the local market are removed.

BellSouth's present claim that it will offer "initial basic rates" that are "at least 5% lower than the corresponding rates of the largest interexchange carrier" (Br. 94-95) illustrates the illusory nature of BellSouth's promises: In light of the numerous discount plans available to long distance customers, it is simply absurd to base a claim of lower long distance prices solely upon a proposed "initial" discount off basic rates that no consumer need pay.

There is in any event no reason to think that BellSouth's promises of future price-cuts will be kept any more faithfully than the promises several BOCs made to persuade the MFJ court to permit them to offer long distance service to cellular customers. While Ameritech, SBC, and others projected that they would charge cellular customers about 10 cents a minute,[62] in practice their flat rates are about twice that much.

It is thus far more likely that BellSouth's entry will comport with the expectations of Pacific Telesis. Internal and proprietary documents of Pacific Telesis candidly acknowledge that "[l]ong distance is one of the most competitive businesses in America," and that Pacific Telesis' own costs in long distance would be significantly higher than AT&T's.[63] As a result, Pacific

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[62] United States v. Western Elec. Co., No. 82-0192 (D.D.C.), Reply of the Bell Companies In Support of their Motion for Removal of Mobile and other Wireless Services From the Scope of the Interexchange Restriction, Affidavit of R.S. Higgins and J.C. Miller III, ¶¶ 20, 30 n.5 (Aug. 3, 1992).

[63] The documents remain confidential and proprietary to Pacific Telesis. These excerpts were made part of the public record in the state regulatory proceeding concerning certification of Pacific Telesis' affiliate as an interLATA carrier in California. See California Public Utilities Commission Proceeding, Application 96-03-007, Tr. Vol. 4, at 494, 496, 503-04.

Telesis' own witness has admitted that Pacific Telesis does not appear "headed for the Price Club segment of the market" and will instead be at the "Nordstrom's end of the market."[64]

CONCLUSION

For the foregoing reasons, BellSouth's section 271 application for Louisiana should be denied.

Respectfully submitted,

Mark C. Rosenblum /mel

Mark C. Rosenblum
Leonard J. Cali
Roy E. Hoffinger
Stephen C. Garavito

Its Attorneys

Vivian V. Furman
Karen E. Weis

AT&T Corp.
295 North Maple Avenue
Basking Ridge, NJ 07920
(908) 221-3539

Kenneth P. McNeely
AT&T Corp.
1200 Peachtree Street, N.E.
Promenade I, Room 4036
Atlanta, GA 30309
(404) 810-8829

David W. Carpenter /mel

David W. Carpenter
Mark E. Haddad
Ronald S. Flagg
Kathleen S. Beecher
Michael J. Hunseder

Sidley & Austin
1722 Eye Street, N.W.
Washington, D.C. 20006
(202) 736-8000

Counsel for AT&T Corp.

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[64] Id. Tr. Vol 10, at 1272.

CERTIFICATE OF SERVICE

I, Cassandra M. de Souza, do hereby certify that I caused a copy of the foregoing Comments of AT&T Corp. in Opposition to BellSouth's Section 271 Application to be served by first class mail this 25th day of November, 1997, on all parties on the attached service list.

Cassandra M. de Souza

SERVICE LIST

William F. Caton
FEDERAL COMMUNICATIONS COMMISSION
1919 M Street, NW
Room 222
Washington, DC 20554

Janice Myles
Policy and Program Planning Division
FEDERAL COMMUNICATIONS COMMISSION
1919 M Street, NW
Room 544
Washington, DC 20554

William E. Kennard
FEDERAL COMMUNICATIONS COMMISSION
1919 M Street, NW
Room 814
Washington, DC 20554

Honorable Susan Ness
Commissioner
FEDERAL COMMUNICATIONS COMMISSION
1919 M Street, NW
Room 832
Washington, DC 20554

Honorable Gloria Tristani
Commissioner
FEDERAL COMMUNICATIONS COMMISSION
1919 M Street, NW
Room 826
Washington, DC 20554

Honorable Michael Powell
Commissioner
FEDERAL COMMUNICATIONS COMMISSION
1919 M Street, NW
Room 844
Washington, DC 20554

Honorable Harold Furchtgott-Ruth
Commissioner
FEDERAL COMMUNICATIONS COMMISSION
1919 M Street, NW
Room 802
Washington, DC 20554

Joel Klein
Acting Assistant U.S. Attorney
U.S. DEPARTMENT OF JUSTICE
950 Pennsylvania Avenue, NW
Washington, DC 20530-001

Donald J. Russell
Telecommunications Task Force, Antitrust Division
U.S. DEPARTMENT OF JUSTICE
1401 H Street, NW
Suite 800
Washington, DC 20005

ITS, Inc.
1231 20th Street, NW
Washington, DC 20036

Susan Cowart
LOUISIANA PUBLIC SERVICE
COMMISSION
1 American Place
Suite 1630
Baton Rouge, LA 70825

Michael K. Kellogg
Austin C. Schlick
Kevin J. Cameron
Jonathan T. Molot
William B. Petersen
KELLOGG, HUBER, HANSEN,
TODD & EVANS, P.L.L.C
1301 K Street, NW
Suite 1000 West
Washington, DC 20005